

## ANALYSIS OF ORIGINAL BILL

### Franchise Tax Board

Author: Plescia Analyst: Rachel Coco Bill Number: AB 1519  
Related Bills: See Legislative History Telephone: 845-4328 Introduced Date: February 21, 2003  
Attorney: Patrick Kusiak Sponsor:

**SUBJECT:** PIT Rates/Increase Ceiling Of Each Bracket

### SUMMARY

This bill would increase the threshold amounts of the California personal income tax (PIT) brackets by \$2,000.

### PURPOSE OF THE BILL

According to the author's office, the purpose of this bill is to decrease the tax liability of taxpayers.

### EFFECTIVE/OPERATIVE DATE

As a tax levy, this bill would be effective immediately, and apply to taxable years beginning on or after January 1, 2003.

### POSITION

Pending.

### ANALYSIS

#### FEDERAL/STATE LAW

Existing state law establishes six tax brackets that determine the rate at which an individual's income is taxed. The tax rates range from 1% to 9.3% and are organized into tax rate schedules. The schedules chart the taxable income threshold amounts applicable to each tax rate. The progressive tax structure results in only a portion of the taxable income being subject to each rate bracket.

An individual's taxable income is subject to a higher marginal tax rate as his or her taxable income increases. The result is a tax where that portion of income falling between each tax bracket is taxed at a specific rate until the taxable income exceeds the threshold amount of that rate, eventually reaching the 9.3% tax rate threshold. Only that portion of taxable income exceeding the beginning amount for the 9.3% bracket is taxed at that rate.

Existing state law requires the Franchise Tax Board (FTB) to index the tax brackets, the personal exemption credits, and the standard deduction each year based on the change in the California Consumer Price Index.

Board Position:

<input type="checkbox"/> S	<input type="checkbox"/> NA	<input type="checkbox"/> NP
<input type="checkbox"/> SA	<input type="checkbox"/> O	<input type="checkbox"/> NAR
<input type="checkbox"/> N	<input type="checkbox"/> OUA	<input checked="" type="checkbox"/> PENDING

Department Director  
Gerald H. Goldberg

Date  
03/27/03

## THIS BILL

This bill would revise the tax brackets for 2003 by increasing the 2002 tax brackets by \$2,000. For example, the 2002 and proposed 2003 thresholds for a single or married filing separate taxpayer are as follows:

### 2002 Tax Brackets And Rates For Single Taxpayer

\$0	-	\$5,834	1.0%
\$5,834	-	\$13,829	2.0%
\$13,829	-	\$21,826	4.0%
\$21,826	-	\$30,298	6.0%
\$30,298	-	\$38,291	8.0%
\$38,291	-	And over	9.3%

### 2003 Tax Brackets And Rates For Single Taxpayer As Proposed

\$0	-	\$7,834	1.0%
\$7,834	-	\$15,829	2.0%
\$15,829	-	\$23,826	4.0%
\$23,826	-	\$32,298	6.0%
\$32,298	-	\$40,291	8.0%
\$40,291	-	And over	9.3%

Note: The 2003 tax bracket amounts are not known at this time due to the annual indexing adjustment, which is based on data that is not available until the end of June, 2003.

This bill would also continue the annual indexing of the brackets as under current law, except that for taxable years beginning on or after January 1, 2003, FTB would be required to adjust those brackets based on the new bracket amounts proposed by this bill.

## IMPLEMENTATION CONSIDERATIONS

Implementing this bill would require some changes to existing tax forms and instructions and information systems, which could be accomplished during the normal annual update.

## TECHNICAL CONSIDERATIONS

This bill would increase the tax brackets for taxable years beginning on January 1, 2003. This bill also would provide for annual indexing to begin in the same taxable year. Thus, **both** the increase in the tax brackets and an adjustment to those new brackets would occur in 2003. The author may wish to amend the bill to begin annual indexing for taxable years beginning on or after January 1, 2004.

## **LEGISLATIVE HISTORY**

SB 2197 (Rainey, 1997/1998) would have increased the threshold amounts of each personal income tax bracket by 10%. SB 2197 failed to pass out of the Assembly Revenue and Taxation Committee.

## **OTHER STATES' INFORMATION**

The states surveyed include *Florida, Illinois, Massachusetts, Michigan, Minnesota, and New York*. These states were selected due to their similarities to California's economy, business entity types, and tax laws.

*Florida* does not have a personal income tax. *Illinois* and *Michigan* impose a flat tax. *Massachusetts* has a split rate, a flat tax rate of 5.3% for most income and 12% for certain capital gains, dividends, and interest. *Minnesota* has a progressive rate with a maximum tax bracket of \$61,460. *New York* has a progressive rate with a maximum tax bracket of \$40,000. All these rates and amounts are for the 2002 tax year.

## **FISCAL IMPACT**

This bill would not significantly impact the department's costs.

## **ECONOMIC IMPACT**

### Revenue Estimate

This bill would result in the following revenue losses:

Revenue Impact Increase PIT Brackets (\$ Billions)			
Fiscal Year	2003-04	2004-05	2005-06
Revenue Loss*	-1.7	-1.3	-1.3

This bill does not consider the possible changes in employment, personal income, or gross state product that could result from this measure.

### Revenue Discussion

This revenue estimate is based on the department's latest personal income tax model. Actual income tax brackets for 2002 were used as a baseline to which \$2,000 was added (\$4,000 for married filing joint). The result was multiplied by the projected 2003 consumer price index (CPI) growth rate of 2.90% to get the 2003 tax brackets. The 2003 tax bracket results were multiplied by the projected 2004 CPI rate of 3.19% to get 2004 tax brackets. Finally the 2004 tax bracket results were multiplied by the projected 2005 CPI growth rate of 3.34% to get the 2005 tax brackets.

This bill would benefit approximately 8.4 million taxpayers for the 2003 tax year. Additionally, 360,000 currently taxable returns would become nontaxable as a result of this bill.

## **LEGISLATIVE STAFF CONTACT**

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